

# CITY COUNCIL REPORT



Meeting Date: March 1, 2022  
General Plan Element: ***Public Services & Facilities***  
General Plan Goal: ***Maintain a sustainable water and wastewater system.***

## **ACTION**

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Adopt notice of intention to increase water and wastewater rates, increase miscellaneous water charges and make housekeeping adjustments to Chapter 49 City of Scottsdale Revised Code for fiscal year 2022/23 and establish May 17, 2022 as the date for a public hearing.

## **BACKGROUND**

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**Financial Planning Process:** As prescribed by the City of Scottsdale's adopted Comprehensive Financial Policies, the City sets rates for water and wastewater customers based on an annually updated five-year financial plan for each enterprise fund. The five-year plans are used to ensure that rate changes generate sufficient revenues to cover costs of serving customers and to maintain adequate reserves in accordance with the City's adopted financial policies; reserve policies provide for contingencies and stabilize rate increases over the five-year planning period. As part of the comprehensive planning effort, the impact on the combined utility bill is carefully considered in determining the appropriate balance between rate increases and expenditure needs including future capital improvements and debt financing needs. The City believes that a strategy of annual marginal rate increases to smooth out long term revenue requirements produces more affordable and predictable rates for customers.

**State Public Notification Process:** State statutes establish the public notice and public hearing process to ensure that City water and wastewater customers receive adequate notice time, the ability to study the rate report supporting the proposed rate increases, and the opportunity to speak at a public hearing regarding the proposed increases. State statutes require:

- Adoption of a notice of intention to modify rates and miscellaneous water charges at a regular Council meeting (March 1, 2022) and setting of a date for a public hearing (May 17, 2022) on the proposed changes to be held not less than 60 days after adoption of the notice of intention;

Action taken \_\_\_\_\_

- Posting of a written report or data supporting the changes with the City Clerk at least 30 days prior to the public hearing (March 1, 2022);
- Publication of a notice of public hearing regarding City's intention to modify rates and miscellaneous water charges in a newspaper of general circulation within the boundaries of the municipality not less than 20 days prior to the public hearing date (April 18, 2022);
- A public hearing at a City Council meeting (May 17, 2022);
- Adoption of the proposed changes any time after the public hearing (May 17, 2022);
- Implementation of changes no sooner than 30 days after adoption (proposed water rates and miscellaneous water charges, and wastewater rates effective July 1, 2022).

## **ANALYSIS & ASSESSMENT**

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In accordance with its adopted financial policies, the City completed the annual updates to the comprehensive five-year financial plans that incorporate all projected operating and capital revenues and expenses to determine the cash needs of the water and wastewater enterprise funds. The City is proposing modifications to the water and wastewater rates and is proposing increases to miscellaneous water charges to meet cost recovery requirements for services provided to specific customers. As part of the comprehensive planning effort, the impact on the combined utility bill for water and wastewater service was carefully considered in determining the appropriate balance between the proposed rate changes and debt financing. Based on the updated five-year financial plans, a synopsis of cost impacts is explained below:

**Water** –The water enterprise fund is impacted by multiple cost factors over the five-year planning period including:

- Operating cost increases for raw water to include Tier 1 Drought Contingency Plan (DCP) drought pricing, put in place by the Central Arizona Project (CAP),
- Operating cost increases for treatment chemicals due to scarcity and supply challenges,
- Operating cost increases for contractual services necessary for treating raw water,
- Increasing costs for replacing and repairing aging infrastructure,
- New groundwater treatment operating costs to improve the reliability and water quality of south Scottsdale wells,
- Increasing actions and costs required for drought preparedness through enhancement of conservation measures and messaging,
- Additional staff to support system expansion, capital improvement program development, and water conservation,
- Operating cost increases for personnel services and benefits.

Increases to base fees are proposed to better reflect the recovery of fixed operating costs and adjusted to capture the demand availability designed into the system. Increases to commodity rates are proposed to generate sufficient revenues to maintain the water fund as a self-sustaining enterprise, encourage efficient water use and urge conservation. Additionally, the water rate tier structure is being condensed to provide price incentives for water conservation.

Overall, the water base fee and commodity rate changes are forecasted to generate an annual revenue increase up to \$6.5 million or 5.8% and become effective July 1, 2022. The details of the increase are available in a written report with data supporting the changes on file with the City Clerk and posted to Scottsdale Water's web page: [www.scottsdaleaz.gov/water](http://www.scottsdaleaz.gov/water).

**Wastewater** – The wastewater enterprise fund is impacted by multiple cost factors over the five-year planning period including:

- Operating cost increases for treatment chemicals due to scarcity and supply challenges,
- Increasing cost for replacing and repairing aging infrastructure,
- Maintenance cost increases of system infrastructure due to increased system demand,
- Operating cost increases for personnel services and benefits.

Increases to base fees are proposed to better reflect the recovery of fixed operating costs and adjusted to capture the demand availability designed into the system. Adjustments to volumetric rates are proposed to reflect the cost of wastewater loadings by customer class and generate sufficient revenues to maintain the wastewater fund as a self-sustaining enterprise

Overall, the wastewater base fee and volumetric rate changes are forecasted to generate an annual revenue increase up to \$2.1 million or 4.7% and become effective July 1, 2022. The details of the increase are available in a written report with data supporting the changes on file with the City Clerk and posted to Scottsdale Water's web page: [www.scottsdaleaz.gov/water](http://www.scottsdaleaz.gov/water).

**Water and Wastewater Miscellaneous Charges** - To address cost recovery, new water hauler and hydrant meter volumetric rates are proposed in addition to increases to miscellaneous charges and are proposed effective July 1, 2022 to meet the City's financial policy that charges recover all direct and indirect costs of service. Miscellaneous charges are assessed to specific users of the service so that general rate payers do not bear the burden. The proposed miscellaneous charge increases include:

- Water meters, delivery, and service lines and fire lines (various sizes)
- Move service and/or meter up to 15 feet
- Raise/lower meter
- Same day service charge
- Meter shop test
- Turn-offs
- Trip charge
- Residential water hauler volumetric rate
- Commercial water hauler volumetric rate
- Bulk water volumetric rate
- Hydrant meter volumetric rate

Increases to water miscellaneous rates and charges are proposed to maintain cost recovery for specific services and are forecasted to generate an annual revenue increase of approximately \$7,906 and become effective July 1, 2022.

There are no changes proposed for wastewater miscellaneous charges.

Changes to the City Code for housekeeping updates, including processes, definitions and titles are proposed to be effective July 1, 2022.

## **RESOURCE IMPACTS**

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There are no resource impacts associated with this action as it strictly involves a public notice of intention to increase water and wastewater rates and charges and schedule a public hearing per State statutes.

## **OPTIONS & STAFF RECOMMENDATION**

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### **Recommended Approach**

Adopt the notice of intention to increase water and wastewater rates and charges for fiscal year 2022/23 and establish May 17, 2022, as the date for public hearing to proceed with proposed rate increases in conformity with State statutes.

## **RESPONSIBLE DEPARTMENT(S)**

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Water Resources and Finance Department

## **STAFF CONTACTS (S)**

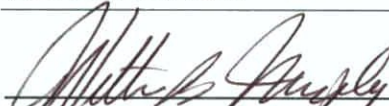
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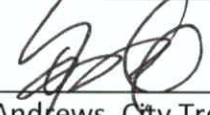
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**APPROVED BY**

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Date

  
Date

  
Date

**ATTACHMENTS**

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1. Draft - Proposed Legal Notice of Public Hearing

**DRAFT**

**LEGAL NOTICE**

**CITY OF SCOTTSDALE  
NOTICE OF PUBLIC HEARING REGARDING  
CITY'S INTENTION TO INCREASE  
WATER AND WASTEWATER RATES**

The City of Scottsdale hereby gives notice pursuant to Arizona Revised Statutes section 9-511.01 of a public hearing to be held at the regularly scheduled City Council meeting on **May 17, 2022 at 5 p.m.** in the Kiva in City Hall, 3939 N. Drinkwater Boulevard, Scottsdale, Arizona\* in connection with the City's intention to consider an ordinance modifying water and wastewater rates and charges for City water and wastewater service for fiscal year 2022/23. At the hearing, the City will accept verbal and written comments concerning the proposed water and wastewater rate ordinance. A report, including documentation supporting the modification, is available at the City Clerk's office and the City's website at <https://www.scottsdaleaz.gov/Water/rates-fees>.

\*Please note that due to the ongoing COVID-19 pandemic, Scottsdale City Council meetings may be held virtually with access by the public limited to virtual attendance through electronic means. Meetings are broadcast electronically through Cox Cable Channel 11 and streamed online at [ScottsdaleAZ.gov](https://www.scottsdaleaz.gov) (search "live stream"). Please check the City Council website at <https://www.scottsdaleaz.gov/council/meeting-information/agendas-minutes> for the specific agenda for this meeting and the latest updates regarding meetings and the opportunity for public participation and comment at this hearing.

**Publication No Later than April 18, 2022**